THE ROLE OF MONETARY AND FISCAL POLICIES IN INDUSTRIAL AND AGRICULTURAL DEVELOPMENT IN NIGERIA*

At the time Nigeria attained political independence in 1960, the agricultural sector dominated all other sectors of the economy, accounting for about 65 per cent of the Gross Domestic Product (GDP). The sector provided the bulk of the nation's foreign exchange earnings and food requirements. Over the years, however, the situation changed drastically—the sector's contribution to the GDP, foreign exchange earnings and food requirements of the teeming population declined.

Also since independence, the development of the industrial sector has been a major focus of policy. In 1960, the contribution of the industrial sector to the GDP was about 10 per cent. Unlike the agricultural sector, however, the industrial sector showed remarkable growth particularly since the end of the Nigerian civil war in 1970. The development of industry and agriculture is of great concern to the government because of the vital role the two sectors could play in overall economic development as well as revenue generating to the government.

Over the years, Nigeria made conscious and determined efforts to attain a high level of social and economic transformation of the economy. So far, the nation has had on four National Development Plans in which varying emphasis on developmental goals and objectives were articulated and pursued. In order to attain the developmental goals and objectives, several policy tools were adopted, including monetary policy, fiscal policy, exchange control measures, and incomes and prices policy. The measures adopted were changed from time to time to reflect the changing economic environment and circumstances.

This paper focuses on two of the policies adopted—monetary and fiscal—and examines their impact on industrial and agricultural development. The paper is divided broadly into four parts. Part I gives an overview of the monetary and fiscal policies that have been adopted in Nigeria. Part II examines the impact of monetary policy on industrial and agricultural development, while Part III focuses on the impact of fiscal policy on industrial and agricultural development. Finally, Part IV provides a brief summary and conclusion of the paper.

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PART I

An overview of monetary and fiscal policies adopted in Nigeria

1. Monetary Policy

Monetary policy may be described as measures which deal with the discretionary control of money supply by the monetary authorities with a view to achieving stated economic objectives. It involves policy actions designed to influence the cost and availability of credit. Monetary policy, as adopted in Nigeria, has four broad objectives: (1) maintenance of relative stability in domestic prices; (2) attainment of a high rate of employment; (3) achievement of a high and sustainable rate of economic development; and (4) maintenance of balance of payments equilibrium.

The instruments of monetary policy available to the Nigerian monetary authorities include: rediscount rate and interest rate structure; moral-suasion; reserve requirements; direct credit control; exchange rate; and open market operations.

(a) Rediscount rate and interest rate structure

The rediscount rate is the rate at which the Central Bank stands ready to provide loan accommodation to commercial banks. As a lender of last resort, such lending by the Central Bank is usually at penal rates. The rediscount rate is of particular importance in that it is the basis on which interest rates are structured. The rediscount rate was most actively used between April 1960, when the first Nigerian Treasury Bills were issued, and 1961. The rediscount rate and Treasury Bill rate were revised 10 and 13 times, respectively, during the period in order to attract commercial banks' short-term investments abroad into Nigeria. In 1965, the rediscount rate was increased from 4 to 5 per cent, while all interest rates were also revised upwards by one percentage point. Changes in the rediscount rate and the interest rate structure were again made in subsequent years—1968, 1975, 1977, 1978, 1980, 1982, 1984 and 1985.

It is important to mention that interest rates in Nigeria are directly managed by the monetary authorities, though such management is based on expert advice, in the absence of a well developed financial market. The practice in Nigeria contrasts with what operates in developed economies where market forces determine the levels of interest rates. The practice in Nigeria makes it possible for the Government to set the deposit and lending rates of the financial intermediaries at their prevailing levels. For instance, lending rates of the Nigerian Agricultural and Co-operative Bank and Federal Mortgage Bank are lower than those of other financial intermediaries. Also, the practice makes it possible for the Government to set the rates for lending to specified sectors of the economy, with a view to encouraging (discouraging) lending to those sectors. Thus, lending rates to agriculture, residential building construction, and small-scale industries are lower than the rates for other borrowers.

(b) Moral-suasion

Moral-suasion involves mere persuasions or appeal on the part of monetary authorities to the banks requesting them to operate in a particular direction for the realisation of specified government objectives. For example, the government may appeal to the banks to exercise restraint in credit expansion. Moral-suasion is commonly used in Nigeria.

(c) Reserve requirements

The commercial banks are required to maintain certain reserve requirements in order to control their liquidity and influence their credit operations. The reserve requirements include cash ratio, liquidity ratio, special deposits and supplementary reserves. The cash ratio, which is designed to raise or reduce the liquidity of banks, is applied in a discriminatory manner, with the banks grouped into four categories according to size and the largest banks maintaining the largest ratios; and vice versa. In 1985, the ratios range from 2 per cent for banks with total deposit liabilities less than ₦30 million to 5 per cent for banks with total demand liabilities exceeding ₦300 million. The liquidity ratio, fixed at 25 per cent, is designed to enhance the ability of banks to meet cash withdrawals on them by their customers. The banks have also been made to hold specified amounts of stabilisation securities issued by the Central Bank. Special deposits in the form of compulsory advance deposits for specified imports have also been imposed, with the deposits so collected deposited with the Central Bank, interest free.

(d) Direct control of credit

The policy of direct control of credit is applicable not only to commercial banks but also to non-commecial bank intermediaries such as merchant banks. In order to control the credit operations of the banking system, the monetary authorities imposed credit ceilings on the overall expansion of credit, taking into account acceptable levels/expansion in other relevant economic variables such as GDP, domestic prices, reserves and money supply. In addition, the monetary authorities prescribe sectoral and sub-sectoral allocation of credit in such a way that available bank loans and advances are allocated to the borrowing sectors and sub-sectors in accordance with the desired objectives of policy. Similarly, the banks may be required to provide a specified proportion of the available credit to indigenous borrowers. The proportion of total loans to indigenous borrowers now stands at 90 per cent, of which 16 percentage points must be reserved for small-scale enterprise wholly-owned by Nigerians. Another aspect of banks' credit allocation relates to the stipulation that not less than 40 per cent of total desposits collected through the banks' rural branches should be lent to customers in those rural areas.

Ceilings on the rate of expansion of banking system's credit were first imposed in 1964. In that year, expansion in commercial banks' aggregate loans and advances was limited to 15 per cent (reduced to 13 per cent in 1966), while that on Central Bank credit which was set at 17.6 per cent was removed in 1966. Ceilings were also placed on commercial bank credit to finance institutions, individual borrowers for consumption expenditure and importers of consumer goods. Although the credit operations of the banks have continued to be controlled, those of the Central Bank have not been controlled since 1966.

For the purpose of sectoral and sub-sectoral allocations of credit as currently adopted, the sectors and sub-sectors are categorised into "Preferred sectors" and "Less-preferred sectors." Loans to the preferred sectors are minima in the sense that the banks can exceed the stipulated proportions, while loans to the less-preferred sectors are maxima which implies that the banks must not exceed the stipulated proportions. The proportion of total loans to the two broad categories, the sectors and sub-sectors are altered from time to time to reflect the desirable direction in the allocation of banks' credit. The prescribed distribution of commercial and merchant banks' loans and advances in 1985 is shown in Table 1. It will be observed from the table that the industrial and agricultural sectors are in the category of preferred sectors.

(e) Exchange rate

The exchange rate of the naira is the rate at which the naira is exchanged for other currencies. To-date, Nigeria has experimented with three approaches in determining the naira exchange rate. They are: pegging, managed float and import-weighted basket.

Under the pegging system, the naira was pegged to the dollar. This became necessary because of the collapse of the "gold standard" — a monetary system which hitherto guaranteed global exchange rate stability. A change became necessary as it was realised that the conditions in the United States of America which affected the movements in the value of the dollar were different from those in Nigeria. Consequently, as from April 1974, the naira exchange rate was allowed to "float". At the same time, a policy of gradual appreciation of the naira was adopted, taking into account factors such as the balance of payments, the rate of domestic inflation, and changes in the value of currencies of Nigeria's major trading partners. The managed float also had the problem that it is not guided by developments in the international exchange markets. Since 1978, a new approach — the import-weighted basket of seven currencies — has been adopted in determining the naira exchange rate. This approach has the advantages of minimising overtime exchange rate fluctuations, reflecting the developments in international exchange markets, as well as reflecting the developments in the economies of our major trading partners.

(f) Open market operations

Central Banks engage in open market operations with the objective of increasing (reducing) the cost and availability of credit. For example, in an inflationary situation, the Central Bank can sell securities and thereby reduce the cash position of commercial banks and thus reduce the banks' ability to expand credit. In a deflationary situation, the Central Bank can buy securities from the banks and thereby provide them with additional funds which can enable them expand credit. The policy of open market operations has so far not been adopted in Nigeria because of: (1) the under-developed nature of our financial system; (2) inadequate supply of necessary securities; and (3) the fact that interests rate are fixed for government securities and the securities account for the bulk of total securities in the Nigerian money and capital markets.

Table 1

SECTORAL DISTRIBUTION OF COMMERCIAL AND MERCHANT BANK'S LOANS AND ADVANCES IN 1985

	Commercial Banks (%)	Merchant Banks (%)
A. PREFERRED SECTORS		
Agriculture:		
(Agriculture, Forestry and Fishing)	12.0	6.0
Industrial Enterprises	44.0	58.0
(a) Manufacturing (including Agro-allied Industries)	(35.0)	(41.0)
(b) Others (Mining and Quarrying, other Construction, other Industries)	(9.0)	(17.0)
Residential Building Construction	6.0	6.0
Exports	2.0	3.0
Services: (Public Utilities, Transport and Communications)	11.0	6.0
TOTAL 'A'	75.0	79.0
B. LESS-PREFERRED SECTORS		
General Commerce: (Imports and Domestic Trade)	16.0	14.0
Government	3.0	2.0
Others: (Credit and Financial Institutions, Personal and Professional, others)	6.0	5.0
TOTAL 'B'	25.0	21.0
TOTAL 'A' + 'B'	100.0	100.0

Note: Percentage shares in 'A' (Preferred Sectors) should be regarded as MINIMA while those in 'B' (Less-Preferred Sectors) should be regarded as MAXIMA. In other words, the banks may exceed the targets for the first five sectors within the overall ceiling.

Source: Central Bank of Nigeria

Development of the money and capital markets and financial intermediaries

In order to enhance the performance of the financial system and effectiveness of monetary policy, the monetary authorities paid great attrention to the development of the money and capital markets and also establishment of financial institutions to provide finance to industry and agriculture. The money market instruments include: Treasury Bills (1960), Call Money Fund (1962), Commercial Bills, (1962), Treasury Certificates (1968), Certificates of Deposit (1975), Bankers' Unit Fund (1975), and Stabilisation Securities (1976). The capital market instruments include: Federal Government Development Stocks (1959) and private sector shares and debentures issued from time to time. Earlier in 1960, the Lagos (now Nigerian) Stock Exchange was established.

In addition, various financial intermediaries were encouraged or established by the monetary authorities. These include: the Nigerian Industrial Development Bank (1964), the Nigerian Agricultural and Cooperative Bank (1973), and the Nigerian Bank for Commerce and Industry (1973). It may also be mentioned at this point that in 1977, the Agricultural Credit Guarantee Scheme was established to enhance lending to the agricultural sector.

While still on financing, it is relevant to mention the financing of the marketing and other operations of the Nigerian Produce Marketing Company reformed into Commodity Boards in 1977. The Central Bank provides short-term finance for the purchases and sales of agricultural exports.

Other measures

Other measures adopted to enhance development of industry and agriculture included: (1) exemption from tax of interest earnings by a bank from loans granted for the purpose of manufacturing goods for export; (2) introduction of grace periods ranging from one to seven years in repayment of agricultural loans; and (3) introduction of Comprehensive Insurance Scheme to cover farmers against hazards of drought and pest infestation of crops and livestock.

2. Fiscal policy

Fiscal policy may be described as the policy pursued by a government to influence spending and economic activities in an economy by changing the size and content of taxation, expenditure and public debt, with a view to achieving given objectives. Broadly, the objectives of fiscal policy comprise: (1) allocation — securing adjustments in the goods and services available between and within the public and private sectors of the economy; (2) distribution — making adjustments in the distribution of income and wealth; and (3) stabilisation — securing a high level of employment, stability in price level, and growth. The fiscal policies relating to industry and agriculture that have been adopted in Nigeria are tax incentives[1] (capital allowances, income tax relief, reconstruction tax exemptions, etc.), relief from import duties, tariff measures, and budgetary measures.

(a) Capital allowances

The pursuit of rapid industrialisation and the need to encourage foreign investors to invest in the country led to the introduction of various types of tax and other incentives since the 1950s. Under the accelerated depreciation allowance system, all companies liable to company income tax are granted automatically and simultaneously initial capital allowance and annual capital allowance, with the rates of allowance varying with the capital expenditure incurred and the type of capital expenditure. The rates of allowance were reviewed downwards in 1966 but were reviewed upwards again in 1970 from their 1966 levels although the 1970 rates were generally below the rates prevailing before the 1966 changes. At the end of the Nigerian civil war, the reconstruction investment allowance was introduced. This was additional to the initial and annual allowances under the accelerated depreciation system. It was applied to qualifying capital expenditure on assets destroyed as a result of military or other operations during the war.

Further changes were made in rates and types of capital expenditure in 1977 and 1985 (see Table 2). In 1977, initial allowances of 5 per cent and 10 per cent were introduced in

[1] For further details, see Adedotun Phillips, "Nigeria's Tax Incentive Policy: Recent Developments and Future Propsects", *Industrial Development in Nigeria: Patterns, Problems and Prospects,* O. Teriba and M. O. Kayode, (eds.) (Ibadan: Ibadan University Press, 1977) pp 348-368.

Table 2

RATES OF CAPITAL ALLOWANCES
(per cent)

Type of capital expenditure	Prior to 1966	1966	1970	1979	1985
A. Initial allowance					
Building expenditure	—	—	—	5	5
Industrial building expenditure	20	10	15	15	15
Mining expenditure	25	20	20	20	20
Plant expenditure	40	15	20	20[3]	20
Motor vehicle expenditure	—	—	—	—	20
Plantation equipment expenditure	25	10	25	25	20
Housing estate expenditure	—	—	—	—	20
Ranching and Plantation expenditure	—	—	—	—	25
B. Annual allowance					
Building expenditure	10	2	5	10	10
Industrial building expenditure	10	5	10	10	10
Mining expenditure	15½	10	12½	12½	10
Plant expenditure	—	10	12½	12½	10
Housing estate expenditure	—	—	—	—	10
Ranching and Plantation expenditure	—	—	—	—	15
Motor vehicle expenditure	—	—	—	—	25
Plantation equipment expenditure	2[2]	10	15	15	33⅓

Source: *Federal Republic of Nigeria Official Gazette (Supplement),* various years
[1] Minimum
[2] To be determined by the Board of Inland Revenue
[3] Agricultural plant expenditure was granted 10 per cent.

building expenditure was increased from 5 to 10 per cent. In 1985, two major changes were made. First, the types of capital respect of building expenditure and agricultural plant expenditure, respectively. In that year also, the annual allowance on expenditure were expanded to include motor vehicle expenditure, housing estate expenditure, and ranching and plantation expenditure, with initial allowances of 20 and 25 per cent, respectively; while the respective annual allowances were 25, 10 and 15 per cent. Also, the rate of annual allowance on plantation equipment expenditure was increased from 15 to 33⅓ per cent. Second, and perhaps in consideration of the generous allowances, the deductible capital allowances were limited to 75 per cent of assessable profits in the case of manufacturing companies and to 66⅔ per cent in the case of other companies. However, persons or companies engaged in the agro-allied industries were excluded from this restriction.

(b) Income tax relief

The Industrial Development (Income Tax Relief) Act 1958, as subsequently amended provides tax exemption for a period of 3-5 years for an industry declared a pioneer industry and issued a pioneer certificate.

Originally, the tax relief period could be extended by the number of tax relief years during which losses were incurred by a company. The losses incurred during the tax holiday period were off-set from profits made after the holiday was over, without limit as to the number of years such losses could be off-set. In the 1970 amendment of the Act, such losses were no longer gross but net losses while in the 1975 amendment the period for which such claims could be made was limited to four years. Originally also, the duration of the tax holiday depended on the amount of capital invested but in subsequent amendments of the Act, a set of criteria was applied. Such criteria included the rate of expansion, standard of efficiency and level of development, training and development of Nigerian personnel, and the relative importance of the industry in the country's economy. In 1978, when the focus of policy was on the agricultural sector, companies engaged in agriculture were allowed to carry forward indefinitely any losses incurred and to write them off against future profits. In addition, lenders to agriculture were granted graduated tax incentives (ranging from 100 per cent exemption on loans maturing after 7 years to 100 per cent tax liability on loans maturing in less than 2 years), which would enable them get tax exemption from interest received on their lending.

(c) Import duty relief

Another type of incentive for industrial development is provided under the Industrial Development (Import Duty Relief) Act, 1957. Under the Act, a company can be granted relief from import duty on raw materials imported. The company may pay first for the imports and later apply for the relief applicable or the imports can be made under the Approved Users Scheme which provides concessionary rates of duty. Such concessionary rates have been revised upwards and downwards at different times. In 1984, however, the Approved Users Scheme and general concessionary rates on raw materials and other intermediate products imported by designated manufacturers for producing import-substitute products were abolished and replaced with rates ranging from 10 to 75 per cent.

(d) Tariff measures

Tariff measures have been extensively used in this country to achieve several objectives – to stimulate domestic production, curtail inflationary pressures, correct balance of payments disequilibrium, and raise revenue for the government. Of all the fiscal policy tools, it is the one that has been most often changed. Generally, tariff measures have been consistently used to protect domestic production and discourage undesirable or luxury imports. Within the general tariff protection, special attention is paid to tariffs affecting priority sectors such as agriculture. Thus, for example, export duties on marketing board's product was abolished in 1973 while in recent years machinery and equipment used exclusively in agriculture have been imported duty-free.

(e) Budgetary measures

Budgetary measures have also been used regularly to stimulate industrial and agricultural development. In their annual recurrent and capital budgets, the governments (federal, regional/states) provide specified funds for the development of these sectors. Such financial provisions are additional to the finances provided to the sectors by the financial system.

(f) Company income tax rate

The rate of company income tax has remained relatively stable, fluctuating between 40 and 50 per cent. The rate of tax was fixed at 45 per cent in 1949 but reduced to 40 per cent in 1958. In 1975, profits less than ₦6,000 were tax-free, profits in excess of ₦6,000 but less than ₦10,000 continued to be taxed at 40 per cent while profits in excess of ₦10,000 were taxed at 45 per cent. The rate was increased to 50 per cent in 1978 but reduced to 45 per cent the following year and has remained at that level till date, except that as from 1982 company income tax took the form of maximum of 2 per cent based on turn-over or 45 per cent of taxable profit, whichever is higher. The turnover tax was, however, abolished in 1985.

PART II

Impact of monetary policy on industrial and agricultural development:

Against the background of the monetary policies so far adopted in Nigeria outlined above, the impact of the policies on industrial and agricultural development can now be examined. The role of monetary policy in developing countries such as Nigeria is limited to a large extent by the under-developed nature of the financial infrastructure. This explains why, for example, the technique of open market operations widely used in developed economies has not been, and cannot be meaningfully, adopted in Nigeria. In addition, several factors as will be shown below have limited the effectiveness of some of those that have been adopted. However, some of the policies adopted appear to have achieved the desired objectives.

(a) The rediscount rate and interest rate structure

In the immediate post-independence era, the Central Bank rediscount rate and Treasury Bill rate were effectively used to attract the banks' short-term investments abroad into Nigeria by relating the Treasury Bill rate to the rates prevailing in the London Money Market. The success of the policy action can be seen from the following statistics: between October 1959 and March 1962, commercial banks' investments abroad declined from ₦3.2 million to ₦0.1 million; the banks' net external assets fell from ₦35.5 million in Janauary 1960 to ₦23.9 million in 1962[2].

In subsequent years, however, interest rates became increasingly managed by the monetary authorities, with such management largely dictated by the need to minimise the cost to government of servicing domestic debt. The prevailing low rates of interest encouraged government heavy reliance on the banking system to finance its operations. Although interest rates have been raised from their early 1970 levels, the reates that prevailed were generally low (sometimes negative taking into account the prevailing rate of inflation) and were not high enough to attract adequate foreign capital investment. Also, because the lending rates of some of the specialised financial institutions were lower than the rates at which they could borrow from the domestic financial markets, such institutions could not borrow from the domestic financial markets to expand their operations. The structure is further worsened by fixing the lending rates for favoured sectors/sub-sectors (agriculture small-scale industries and residential housing construction) at levels lower than lending to other sectors. Unfortunately, this policy has not proved as effective as expected in channelling credit to those sectors concerned, judging by commercial and merchant banks' lending to these sectors. As a matter of fact, it was because of the failure of the banks to meet the prescribed allocation to these sectors and sub-sectors that the Central Bank made it mandatory in 1977 for banks that failed to lend up to the prescribed ratios to make the short-falls available to the Central Bank which would make such funds available to the respective development banks for lending to the sectors/sub-sectors concerned. The failure of the banks to meet the lending target probably reflected the desire of the banks to maximise profits. Given the profit consideration, the banks would give first consideration to loans attracting higher rates of interest before lending to these sectors at the stipulated low rates of interest.

Interest being a cost, the relatively low rates of interest in Nigeria could have been beneficial to the development of industry and agriculture. However, it is not so clear that this has been the case. In fact, it is generally believed that the interest rate policy in Nigeria has not played a significant role in affecting the cost and availability of credit. It is the view of this paper that the interest rates structure can be improved by freeing the structure from the consideration of credit cost to government, realigning the structure to that in foreign markets from which we seek capital inflow, and abolishing the low rates for the so-called favoured sectors including agriculture.

(b) Exchange rate

The naira exchange rate has for long become controversial. It is generally agreed that the naira exchange rate has been over-valued. However, there is no agreement on the degree of over-valuation. In this paper, it is assumed that the naira was over-valued. To the extent that the naira was over-valued, imports became relatively cheaper while exports were relatively more expensive. The impact of the over-valued naira was an increase in the level of imported goods and services, some of which would have been imported for the development of the industrial and agricultural sectors. This statement abstracts from the well-known propensity to import of the average Nigerian no matter the rate of exchange. The over-valued naira also encouraged foreign borrowing as the cost of servicing external debt also became relatively cheaper. As regards exports, which are mainly agricultural commodities and crude petroleum, the over-valued naira could not have induced reduction in export volume, given the fact that: (1) the prices of our exports are determined externally and denominated in foreign currency; (2) producer prices are as a matter of policy fixed at levels that would induce farmers to increase production with the prices sometimes higher than the prices prevailing in the international commodity market; and (3) the production level of crude petroleum (our major export) is fixed by OPEC. However, it is conceded that the value of exports would be lower with an over-valued naira if the export proceeds are converted into naira. Conversely, the naira equivalent would be higher if the naira were devalued.

From policy point of view, the current shift to inward-looking strategy in industrial and agricultural development suggests that the exchange rate policy should be supportive of efforts to discourage imports, including raw materials, and encourage exports. In addition, it would appear desirable that domestic producers should be permitted to market their products overseas themselves rather than marketing their products through the Commodity Boards so that they can reap directly the gains (losses) arising from exchange rate changes.

(c) Direct control of banking system's credit

Direct control of banking system's credit appears to be the most effective tool of monetary policy in directing credit to all sectors in the economy as well as achieving overall economic objectives. The impact of monetary policy on the development of industry and agriculture can, among others, be measured by the volume of financial resources made available to the sectors largely as a result of the monetary policies pursued. However, a note of caution is necessary in evaluating the effectiveness of the policy. The returns from the banks are taken as given. It is not

[2] See, S. B. Falegan, "Instruments of monetary policy: their application and effectiveness in Nigeria", *The role of monetary policy in developing countries,* Central Bank of the Gambia (ed.), (England: Bradbury Willeninson, 1978), pp. 28 – 29.

known for sure whether or not the loan classification by banks in fact reflect the actual banks' lending to the sectors and sub-sectors.

In addition, it is not known whether in actual fact the borrowers actually used the loans obtained from the banks for the purposes the loans were intended. Total loans and advances granted for the development of industry and agriculture by the financial intermediaries are summarised below.

(i) Loans to industry by commercial and merchant banks

Within the overall credit ceiling, commercial bank loans and advances outstanding to industry[3] increased from ₦172.4 million at the end of 1971 to ₦8,823.5 million at the end of 1984. (See Table 3, columns 3 and 4). As a proportion of total loans, credit to industry which represented 34.3 per cent in 1971 rose to a peak of 54.3 per cent in 1979 but declined steadily thereafter to 50.6 per cent in 1983 and 1984. Merchant banks' loans and advances to industry which stood at ₦7.4 million or 40.6 per cent of total loans and advances outstanding in 1973/74 fiscal year rose to ₦885.2 million or 52.5 per cent of total loans at the end of 1984. (see Table 4, columns 3 and 4).

(ii) Loans to industry by other financial intermediaries

Between 1964 and 1982, the NIDB sanctioned 550 projects valued at ₦2,669.0 million. Of this, the bank participation amounted to ₦536.1 milion made up of ₦55.4 million in equity participation and ₦480.7 million in loan participation (See Table 5). Further in 1983, the bank sanctioned 45 projects valued at ₦163.3 million, with the banks's total participation amounting to ₦35.7 million. The bulk of the participation in 1983 was in the form of loans (₦35.0 million) and only ₦0.7 million in equity participation.

There was also remarkable expansion in credit to industry by NBCI. Between 1973 and 1984, total loan and equity disbursements by NBCI increased from ₦41.2 million in 1973 (made up of ₦35.8 million in loans and ₦5.4 million in equity), to ₦157.8 million in 1984 comprising ₦140.9 million in loans and ₦16.9 million in equity (see Table 6).

(iii) Credit to agriculture by commercial and merchant banks

Loans and advances outstanding to agriculture by commercial banks stood at ₦9.3 million or 1.9 per cent of total loans in 1971. By the end of 1984, total credit to the sector had increased to ₦1,052.1 million or 9.2 per cent of total loans and advances outstanding (see Table 3, columns 1 and 2). Similarly, merchant banks' credit to the sector which was relatively low in the first three years, 1973/74 — 1975/76, rose from ₦0.5 million in 1973/74 to ₦79.3 million in 1984. As a proportion of total loans, credit to agricultural dropped from 2.5 per cent in 1973/74 to 0.8 per cent in 1975/76 but rose to a peak of 5.0 per cent in 1980. However, by the end of 1984, credit to agriculture had dropped to 4.7 per cent of total merchant banks' loans. (see Table 4, columns 1 and 2).

It might be useful to point out here that the operations of the Agricultural Credit Guarantee Scheme led to some expansion in loans to agriculture. Between 1978 and 1984, a total of 7,737 loans valued at ₦204.2 million was granted to borrowers under the Scheme. The bulk of the loans was granted for livestock production, with about 57 per cent for poultry production.

(iv) Loans to agriculture from other sources

Total loans outstanding by the Nigerian Agricultural and Cooperative Bank to agriculture increased at a modest rate from ₦227.5 million at the end of 1980 to ₦263.8 million at the end of 1983 after declining by 18.1 per cent at the end of 1981. Available data shows that total loans by the bank stood at ₦287.1 million at the end of September, 1984. (see Table 7).

The Central Bank has also contributed to the development of agriculture. With the refusal of commercial banks in 1967 to finance the marketing of export products, the Central Bank took over the financing of the marketing boards' activities in the following year. At the end of 1984, total loans extended for the financing of commodity marketing amounted to ₦2,981.9 million. Of this total, 61.0 per cent was for financing cocoa, 17.9 per cent for palm produce; 10.7 per cent for cotton, and 6.1 per cent for rubber (see Table 8).

All these figures on loans and advances granted for the development of agriculture during the period under review give a very impressive picture of financial assistance to the sector. But the pity of it all is that only a small proportion probably went to the small-scale farmers who account for the bulk of agricultural production. These farmers encounter problems obtaining loans from the financial intermediaries owing to lack of collaterals required by banks for granting such loans. The situation calls for greater efforts in organising the farmers into cooperatives as well as other measures to increase agricultural output of the small-scale farmers.

[3]Industry comprises manufacturing, mining and quarrying, construction and utilities.

Table 3

COMMERCIAL BANKS' LOANS AND ADVANCES TO AGRICULTURE AND INDUSTRY
(₦ million)

End of year	Agriculture: Amount (₦ million)	Agriculture: % of total loans	Industry: Amount (₦ million)	Industry: % of total loans
	(1)	(2)	(3)	(4)
1971	9.3	1.9	172.4	34.3
1972	19.2	3.1	208.5	33.6
1973	21.6	2.9	276.1	36.6
1974	27.2	2.9	384.7	41.0
1975	37.3	2.4	656.8	42.7
1976	79.6	3.7	1,057.4	49.8
1977	139.1	4.5	1,583.2	51.5
1978	224.0	5.5	2,122.6	51.6
1979	329.6	7.1	2,509.9	54.3
1980	462.2	7.3	3,421.1	53.9
1981	590.6	6.9	4,675.5	54.4
1982	786.6	7.7	5,410.0	52.6
1983	940.4	8.5	5,613.3	50.6
1984	1,052.1	9.2	5,823.5	50.6

Source: Central Bank of Nigeria

Table 4

MERCHANT BANKS' LOANS AND ADVANCES TO AGRICULTURE AND INDUSTRY
(₦ million)

End of year	Agriculture: Amount (₦ million)	Agriculture: % of total loans	Industry: Amount (₦ million)	Industry: % of total loans
	(1)	(2)	(3)	(4)
1973/74	0.5	2.5	7.4	40.6
1974/75	0.4	1.6	12.3	50.6
1975/76	0.7	0.8	89.3	45.6
1976/77	2.0	2.1	62.3	65.2
1977/78	3.3	2.3	90.4	62.9
1978/79	6.2	2.8	126.9	58.1
1979/80	13.2	4.8	167.1	60.1
1980	20.0	5.0	236.7	59.1
1981	28.6	4.0	417.4	58.6
1982	40.1	3.4	648.1	54.5
1983	54.5	3.7	754.7	50.8
1984	79.3	4.7	885.2	52.5

Source: Central Bank of Nigeria

Table 5

SUB-SECTORAL DISTRIBUTION OF NIBD SANCTIONS: 1964-1982
(₦ million)

	No. of Sanctions	Total Project Cost	NIBD PARTICIPATIONS: Equity	NIBD PARTICIPATIONS: Loan	Total
Food	68	414.3	6.2	40.6	46.8
Beverages	38	303.6	9.2	84.4	93.6
Textiles	78	334.0	7.1	61.6	68.7
Footwear and leather	10	11.3	0.4	3.2	3.6
Wood and Furniture	44	86.8	2.1	19.8	21.9
Paper products	30	33.4	0.4	12.1	12.5
Chemical products	49	58.5	0.5	21.5	22.0
Rubber products	7	6.8	0.1	0.6	0.7
Non-metallic and mineral	60	649.2	10.1	77.1	87.1
Iron and steel	3	11.4	0.2	3.5	3.7
Metal fabrication	63	64.5	1.4	21.5	22.9
Electrical and electronics	11	17.6	0.5	6.2	6.7
Transport	10	215.7	1.6	30.8	32.4
Hotel and tourism	36	408.4	12.9	72.4	85.3
Miscellaneous	43	52.5	2.8	25.3	28.1
Total	550	2,669.0	55.4	480.7	536.1

Source: NIDB
Note: Due to roundings, figures do not add up to totals.

PART III

Impact of fiscal policy on industrial and agricultural development

In Part 1, the types of fiscal policies adopted were outlined. In this part of the paper, attention is focused on the impact of the policies adopted on industrial and agricultural development.

(1) Rate of company income tax

As noted earlier, the rate of company income tax remained relatively stable during the period under review, fluctuating between 40 and 50 per cent of taxable profits. And considering the various types of tax incentives and reliefs applicable, the effective rate of tax was much lower than the rates stated above. The relative stability of the rate of tax and the fact that the effective rate was in fact much lower than the rates stated above indicate that company taxation during the period was highly conducive to industrial planning and development.

(2) Capital allowances

The initial and annual capital allowances granted to the companies enabled them to write-off their assets for tax purposes. As practised in Nigeria, the technique characterised by high and perhaps over-generous rates of allowances, led to speeding up the write-off process. By design, the depreciation allowances were aimed at promoting industrial growth and development. In the process, the companies found themselves in a situation of enhanced profitability and liquidity which, in turn, minimised their risks. As far as the industries that enjoyed these allowances were concerned, the system of high and generous capital allowances was highly welcome. Under normal circumstances, the advantages of capital allowances (profitability, liquidity and reduced risks) should lead to industrial expansion and growth.

(3) Pioneer industry tax relief

Pioneer industries are granted tax holiday for a period of 3 to 5 years. Notwithstanding subsequent amendments rationalising the criteria for declaring an industry a pioneer industry and limiting the period during which losses incurred during the tax holiday period could be off-set, it can be said that tax exemptions for pioneer industries have proved very beneficial to the industries concerned. As in the case of the system of capital allowances, tax reliefs to the industries enhanced their profitability and liquidity as well as minimised their risks. Therefore, the tax reliefs provided incentives for industrial growth and development.

At this point it might be necessary to consider other effects of the systems of capital allowances and tax reliefs for pioneer industries so as not to create the impression that the measures are justified in all respects. First, although capital allowances are highly desirable for industries, the structure (initial allowance, annual allowance and investment allowance) is superfluous while the rates of the allowances are too generous. Second, it is doubtful if capital allowances have been a potent policy tool of economic development. Perhaps to some extent. But it could have been a more effective policy tool if they had been applied with some reasonable degree of discrimination to influence industrial location away from the cities to the rural areas, establishment of the type of industries that conform with government priorities, and to discourage establishment of certain types of industries. The prevailing categories of types of investments for the purpose of capital allowances and the fact that all companies enjoy the allowances make it difficult to use this policy in the desirable direction.

Third, since the indigenisation of corporate enterprises in 1972, the industries have placed increasing emphasis on paying high dividends to their shareholders (with the result in some cases that the money spent in buying shares could be re-couped within one year) at the expense of ploughing back a relatively large proportion of the profits for the expansion of the industry in the desirable direction. Although some legislative action has been taken to limit dividends payable to shareholders, fiscal policy could further be adopted through differential tax structure to influence reinvestment (not just retention) of undistributed profits and discourage high dividend payments. Fourth, the systems of reliefs and capital allowances constitute a drain on government revenue. Professor Phillips has shown that the losses in revenue to the government arising from depreciation allowances, pioneer companies' relief, and small companies' relief are very substantial. He estimates that ". . . up to three-quarters (if not more) of actual annual revenue from tax is lost on account of this system of relief and allowances".[4]

Fifth, the role of reliefs and allowances in investment decision in developing countries such as Nigeria is not very clear. Although it is clear that the structure of capital allowances and reliefs enhances the liquidity and profitability as well as reduces the risks of the industries and therefore should play a role in investment decisions, it is not so clear the extent to which this has been the case. On income tax relief, Professor Phillips concluded that ". . . the significance of the tax holiday device tend to lead to the conclusion that is not of crucial importance in the investment decisions of the guarantees".[5] There appear to be other factors considered more important to industries in making investment decisions. These include existing and potential market for the industry's product, and political climate and stability.

Lastly, it would appear that the existence of generous capital allowances has contributed largely to the predominance of capital intensive industries that do not reflect relative factor availability.

(4) Import duty relief

Since the enactment of the Industrial Development (Import Duty Relief) Act in 1958, there has been decreasing use of relief from import duty as policy tool, as evidenced by the abolition of the system of import duty refunds in 1971 and of the approved users scheme in 1972. Although they were reintroduced later, they were abolished again in 1984. During the period they were applied, they served to protect the import-substitution industries through reduction in production cost and thereby enhancing the industries' profitability and expansion. In this regard, it was beneficial to the industries. However, the scheme tended to encourage importation of raw materials and capital goods some of which could have been produced or developed locally. For long, we have been faced with the problem in our development efforts of over-dependence on imported raw materials and

[4] Adedotun Phillips: "Nigeria's Company Income Tax", *The Nigerian Journal of Economic and Social Studies,* Vol. 10, No. 3, November 1968, p. 334

[5] Adedotun Phillips, "The significance of Nigeria's Income Tax Relief Incentive", *Industrial Development in Nigeria: Patterns, Problems and Prospects, op.cit.*, p. 252

Table 6

NIGERIAN BANK FOR COMMERCE AND INDUSTRY: LOANS AND EQUITY DISBURSEMENTS BY SECTOR: 1973-1984
(₦ million)

	Loans	Equity	Total
Food and beverages	35.9	5.4	41.3
Wood and wooden products	12.9	0.9	13.8
Iron and steel industry	16.7	1.4	18.1
Transport industry	5.7	*	5.7
Non-metallic mineral products	30.4	5.4	35.8
Electronics and electrical appliances	0.1	*	0.1
Pulp and paper products	2.0	0.2	2.2
Chemicals and petro-chemical products	1.8	0.2	2.0
Tourism, hotels and entertainment	21.0	3.0	24.0
Textile industry	3,9	0.2	4.1
Other manufactured products	1.9	*	1.9
Other service industries	8.6	0.2	8.8
Total	140.9	16.9	157.8

Source: Nigerian Bank for Commerce and Industry
*Less than ₦0.05 million

Table 7

THE NIGERIAN AGRICULTURAL AND COOPERATIVE BANK: LOANS OUTSTANDING BY SECTOR
(₦ million)

	December 1980	December 1981	December 1982	December 1983	September 1984
Crops					
Food crops	63.5	44.2	115.8	115.5	131.6
Other crops	27.8	37.5	45.0	49.0	49.9
Animal husbandry	3.8	5.4	10.1	12.9	15.8
Fishery	13.4	14.4	14.5	14.5	14.6
Poultry	5.6	6.8	14.1	23.4	27.1
Others	113.4	78.0	46.0	48.5	48.1
Total	227.5	186.3	246.3	263.8	287.1

Source: The Nigerian Agricultural and Cooperative Bank

Table 8

CENTRAL BANK LOANS TO COMMODITY BOARDS AS AT DECEMBER, 1984

Commodity Boards	Amount (₦ million)	Per cent of total
Cocoa	1,818.9	61.0
Palm Produce	532.2	17.9
Cotton	319.7	10.7
Rubber	182.5	6.1
Grains	84.5	2.8
Groundnut	42.3	1.4
Tuber and Root Crops	1.8	0.1
Total	2,981.9	100.0

Source: Secretariat of Technical Committee on Produce Prices (Central Bank of Nigeria).

capital goods as well as the associated foreign technology. Now that the system of import duty relief has been abolished, it is only hoped that it will not be re-introduced in the future.

(5) Tariff measures

In Nigeria, tariffs constitute an important policy tool of industrial development, although they have also been used to achieve policy objectives such as moderation of inflationary pressures, attaining balance of payments equilibrium, etc. The policy of protecting the import-substitution industries has been consistently maintained through the system of import duty relief, imposition of higher rates of import-duty on imports of commodities than excise taxes on locally-produced substitutes, placing under licence the importation of some commodities, out-right ban on the importation of some commodities that have local substitutes or considered not desirable from the national point of view, and rationalisation of rates of duty imposed to reflect national priorities. Available evidence shows that there is effective protection in some of our industries and that the rate of protection has been increasing.[6]

Although the policy of tariff protection is desirable in developing countries such as Nigeria, there are the questions of when the "infant industries" will ever grow into "mature industries" and when the products of the industries will become competitive in terms of quality and price in international markets. It appears that the absence of competition has contributed largely to the prevalence of a seller's market in Nigeria. There is also the question of whether the effect of the protection has not been to increase the profit margins of the industries at the expense of consumers, as evidenced by many companies declaring huge profits annually with prices of their products at relatively high levels.

The tariff structure reflects not only protection of domestic industries but also (and indeed super-imposed) rates of duty reflecting other desirable directions of policy. Because tariffs have become a dependable policy tool to achieve various economic objectives and the rates of duty are changed very frequently as the need arises, there exists a high tariff structure in Nigeria, with adverse effects on all imports including those for industrial and agricultural development. Frequent changes in tariffs also had adverse effects on industrial and agricultural planning and strategy. Sometimes, the government places a ban on the importation of some commodities but as local producers are beginning or planning to produce the commodities locally, the government lifts the ban. Fiscal policy needs to be improved in this area.

(6) Foreign private investment in Nigeria[7]

As mentioned earlier, a major objective of fiscal policy in Nigeria is to encourage foreign investors to invest in the country. This section of the paper attempts to summarise the trend and volume of foreign private investment in Nigeria.

The cumulative foreign private investment in Nigeria maintained an upward trend between 1965 and 1982[8]. Total investment which stood at ₦707.4 million in 1965 rose steadily to a billion naira mark in 1970 and continued to expand thereafter, reaching a peak of ₦5,382.8 million in 1982. A breakdown of the investments by type of activity shows that mining and quarrying and manufacturing and processing accounted on the average for 31.2 and 32.8 per cent, respectively, of the total investment. Combined, the two types of activities accounted for 64.0 per cent of the total investment. It is interesting to observe that since 1978 there has been a gradual shift in investment from mining and quarrying to manufacturing and processing (see Table 9). Investment in trading and services which nearly doubled between 1981 and 1982 accounted on the average for 21.0 per cent of the total investment while the share in total investment of building and construction, agriculture, transport and communication, and other activities were 6.0, 2.2, 1.3 and 5.5 per cent, respectively.

Analysis of investment by country or region of origin shows that the United Kingdom was the largest foreign investor in Nigeria, with an average share of 41.3 per cent in total investment. This was followed by Western Europe (excluding the UK) with 27.9 per cent and the United States of America with 17.6 per cent. Other investors accounted for 13.2 per cent.

(7) Budgetary provisions

(a) Industry

The annual budgetary provisions by the governments for the development of industry are used for the provision of essential industrial infrastructural services such as research as well as direct establishment or participation in industrial undertakings considered to be of national importance and priority. Most of the industrial ventures have served useful purposes. Recurrent and capital expenditures by the Federal Government for the development of the industrial sector which totalled ₦20.5 million in 1970/71 fiscal year rose to ₦1,579.9 million in 1977/78 but dropped to ₦781.7 million the following year. In 1979/80, aggregate expenditure on industry rose to a peak of ₦1,900.0 million. From this level, expenditure on industry declined steadily to an estimated level of ₦469.7 million in 1984 (see Table 10 column 2).

In recent years, and largely as a result of mismanagement of government industrial enterprises with the consequent inability of such enterprises to prove viable, there has developed agitations that certain industrial ventures should be privatised. Although the governments have accepted the idea, it does not appear that privatisation is a better option. A better and more acceptable alternative solution would be to find out why in Nigeria government industrial undertakings are not profitable and to find ways and means of making government industrial ventures viable.

(b) Agriculture

The federal and state governments make annual budgetary provisions in their recurrent and capital expenditures for the development of agriculture. In addition to funding agricultural research institutes and other infrastructural services, the Federal Government engages in establishment of river basin development authorities and agro-allied industries. Federal Government spending on agriculture was relatively small until after the Nigerian civil war. Total recurrent and capital expenditures by the Fedeal Government which stood at ₦1.7 million in 1960/61 fluctuated upwards to ₦9.5 million in 1970/71 and rose to ₦17.8 million the following year. In 1972/73, aggregate expenditure stood at ₦4.9 million. It increased from this level to ₦1,056.9 million in 1981 but its estimated to drop sharply to only ₦285.3 million in 1984. (See Table 10, column 1).

[6] See, for example, T. A. Oyejide, "Tariff Protection and Industrial Development in Nigeria", *Industrial Development in Nigeria: Patterns, Problems and prospects, op.cit.*, pp. 272 – 279.

[7] Data in the analysis are based on responses to Central Bank of Nigeria questionnaire to companies that are wholly or partly owned by foreigners.

[8] Analysis is limited to the period 1965-1982 due to lack of adequate data for other years.

CUMULATIVE FOREIGN PRIVATE INVESTMENT: 1965—1982
(₦ million)

Table 9

	By type of activity							By country or region of origin				
	Mining and Quarrying	Manufacturing and processing	Agriculture forestry and fishing	Transport and communication	Building and construction	Trading and services	Other activities	United Kingdom	United States of America	Western Europe (excluding UK)	Others	Total
1965	293.0	135.6	11.0	11.4	39.2	181.2	36.0	371.0	116.4	158.8	61.2	707.4
1966	331.4	140.0	9.2	12.2	17.8	199.0	24.0	374.2	126.8	165.4	67.2	733.6
1967	356.4	173.0	9.6	8.4	19.0	192.6	18.0	366.0	183.2	164.8	63.0	777.0
1968	417.2	169.8	9.6	9.6	19.8	205.8	18.2	406.8	201.6	170.6	71.0	850.0
1969	389.6	196.0	11.0	11.4	22.2	231.0	20.4	397.0	203.6	195.2	85.8	881.6
1970	515.4	224.8	11.2	13.8	13.8	206.6	17.6	444.0	230.0	224.8	104.0	1,003.2
1971	694.0	378.8	15.4	12.0	15.4	187.2	20.0	592.0	337.4	261.0	132.4	1,322.8
1972	859.7	356.6	9.4	12.2	34.3	242.7	56.2	769.7	286.6	367.0	147.8	1,571.1
1973	925.3	409.0	7.9	11.6	45.0	294.7	70.2	860.9	308.0	415.2	179.6	1,763.7
1974	818.1	520.4	20.7	21.9	64.2	321.3	45.5	832.8	300.0	459.8	219.5	1,812.1
1975	959.6	506.2	19.2	22.8	111.2	572.4	96.0	887.5	535.2	590.1	304.7	2,287.5
1976	918.9	550.7	21.9	16.2	122.5	624.8	84.0	942.0	376.2	653.1	362.5	2,333.8
1977	1,090.8	703.8	75.0	30.6	121.4	365.5	144.3	1,072.8	287.2	739.0	432.4	2,531.4
1978	421.3	1,263.4	117.6	55.6	224.3	522.5	258.5	1,195.3	342.4	847.6	477.9	2,863.2
1979	466.8	1,402.5	120.8	60.5	294.3	550.5	257.7	1,103.6	565.8	976.0	507.7	3,153.1
1980	677.4	1,503.9	120.5	62.2	307.8	693.2	255.1	1,421.8	566.2	1,107.2	524.9	3,620.1
1981	526.0	1,705.7	120.5	60.8	325.9	767.2	251.8	1,429.2	438.6	1,350.0	540.1	3,757.9
1982	974.0	1,922.5	120.5	68.9	422.5	1,483.6	390.8	1,993.8	1,171.6	1,557.6	659.8	5,382.8

Source: Central Bank of Nigeria

FEDERAL GOVERNMENT EXPENDITURES (RECURRENT AND CAPITAL) ON AGRICULTURE AND INDUSTRY
(₦ million)

Year	Agriculture	Industry
1970/71	9.5	20.5
1971/72	17.8	38.4
1972/73	44.9	107.5
1973/74	57.3	110.3
1974/75	132.7	365.7
1975/76	213.5	509.3
1976/77	113.7	856.4
1977/78	178.7	1,579.9
1978/79	89.6	781.7
1979/80	238.2	1,900.0
1980 (9 months)	707.4	1,355.0
1981	1,056.9	955.6
1982	178.9	815.6
1983[1]	470.4	729.3
1984[1]	285.3	469.7

Source:
[1]Federal Republic of Nigeria: Report of the Account-General of the Federation together with financial statements, various years.
[2]Federal Government Recurrent and Capital Estimates, various years.
[1]Budget Estimates.

The regional/state governments have also contributed to the development of agriculture. Aggregate expenditure by the then regional governments rose from ₦5.6 million in 1960 to ₦15.3 million in 1966. Also under the twelve-state structure, expenditure on agriculture by states for which data were available rose from ₦16.7 million in 1968/69 to ₦109.7 million in 1975/76. Although data on state governments' finances have not been available since the latter date for all the states, there are indications that state governments' expenditure on agriculture has continued to expand. Indeed, the state governments in recent years have assumed greater responsibility than ever before in financing the development of agriculture.

Concluding observations and remarks

Having discussed the impact of the monetary and fiscal policies that have been adopted on industrial and agricultural development, it is necessary to pause and view the impact of the policies from a different angle and underline the limitations.

Since independence agricultural production has been on the decline both in absolute and relative terms. The sector's contributions to GDP which was about 65 per cent in 1960 dropped to about 56 per cent in 1967. Thereafter, the proportion fell steadily to only about 26 per cent in 1984. Looked at from another angle, the index of agricultural production (1975 = 100) shows that agricultural production was on the average higher between 1970 and 1974 than in 1975. Since the latter date, agricultural output has been on the decline, with the index averaging 87.0 between 1976 and 1981, though estimated at 91.4 in 1984.

The decline in staples and livestock contributed largely to the fall in agricultural output, particularly since 1976.

On the other hand, industrial production, increased remarkably since independence. In 1960, industry accounted for only 10 per cent of the GDP. The sector's growth was relatively modest in the 1960s. However, in 1970 the contribution of the sector to GDP jumped to 42 per cent. It rose to about 47 per cent in 1979 at the peak of the oil boom but dropped to about 37 per cent in 1983 as a result of the glut in the international oil market. Available data on the index of industrial production (mining, manufacturing and electricity only) indicate that industrial production (1972 = 100) increased remarkably since the 1970s. The index which averaged about 116 in 1973 rose steadily to about 207 in 1982, largely as a result of the increases in electricity and manufacturing production; mining output declined. Industrial production is, however, estimated to decline from the 1982 level in 1983 and 1984.

The question may be asked whether the performance of the industrial and agricultural sectors during the period was as a result of the fiscal and monetary policies adopted. In other words, can it be concluded that the fiscal and monetary policies adopted caused the decline in agricultural production and the expansion in industrial output? This question cannot be fully answered in this paper. There is no doubt that the monetary and fiscal policies adopted contributed positively on the average to the development of the two sectors. However, there were also other factors which exerted considerable impact positively and negatively on the development of the two sectors. These included exchange control measures which affected availability or non-availability of foreign exchange for imports and control over repatriation of earnings (salaries, dividends, etc.) by foreigners; and incomes and prices policy. Other factors that affected the two sectors were: smuggling activities; patronage of goods produced in Nigeria, including consumption of our agricultural products; utilisation of research findings; price distortion especially during the oil boom and the consequent neglect of the agricultural sector; government regulations; markets for goods produced; and political stability. Although the government endeavours to make policies pursued consistent and complimentary to one another and to minimise conflict in policies adopted, such conflicts cannot be totally eliminated. Therefore, it would be expected that factors other than monetary and fiscal policies affected (positively and negatively) the performance of industry and agriculture. On a final note, it would appear that the poor performance of agriculture reflected largely poor policy implementation, rather than the monetary and fiscal policies as such that were adopted.

PART IV

Summary and Conclusions

The paper discussed the role of monetary and fiscal policies that were adopted in Nigeria since 1960 in the development of industry and agriculture. Of the monetary policy tools examined, it was noted that the open market operations technique has not been adopted in Nigeria because of the under-developed nature of the money and capital markets, the rediscount rate and interest rate structure were not effective policy tools and that exchange rate policy has limitation in effectiveness. The only monetary instrument that proved most useful was the control of the financial system's credit. The system of credit control, particularly sectoral allocation of credit made it possible for commercial and merchant banks, for example, to expand credit to agriculture and industry. In addition, credit provided for the development of industry and agriculture by other financial intermediaries was very substantial during the period. Judged by the volume of financial resources made available to the sectors during the period, monetary policy could be seen as contributing positively to the development of the two sectors.

Fiscal policy also contributed in a large measure to the development of agriculture and industry. The fiscal measures that proved beneficial to industries included tax incentives, reliefs from import duties and tariff measures. The Federal and regional/state governments also provided large sums of money through their annual budgets for the developent of industry and agriculture.

Although the monetary and fiscal policies adopted during the period had favourable impact on industrial and agricultural development, there is still scope for further improvement in their application in future. To make the policies more effective, government policies in other directions should also be made to complement fiscal and monetary policies at promoting industrial and agricultural development.

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